

Real Estate Brokerage Industry: Structure-Conduct-Performance

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Consumer Choice

- For-Sale-By-Owner
- Discount brokerage
- “Traditional” brokerage
- Internet browsing free of charge

Perfectly Competitive Industry?

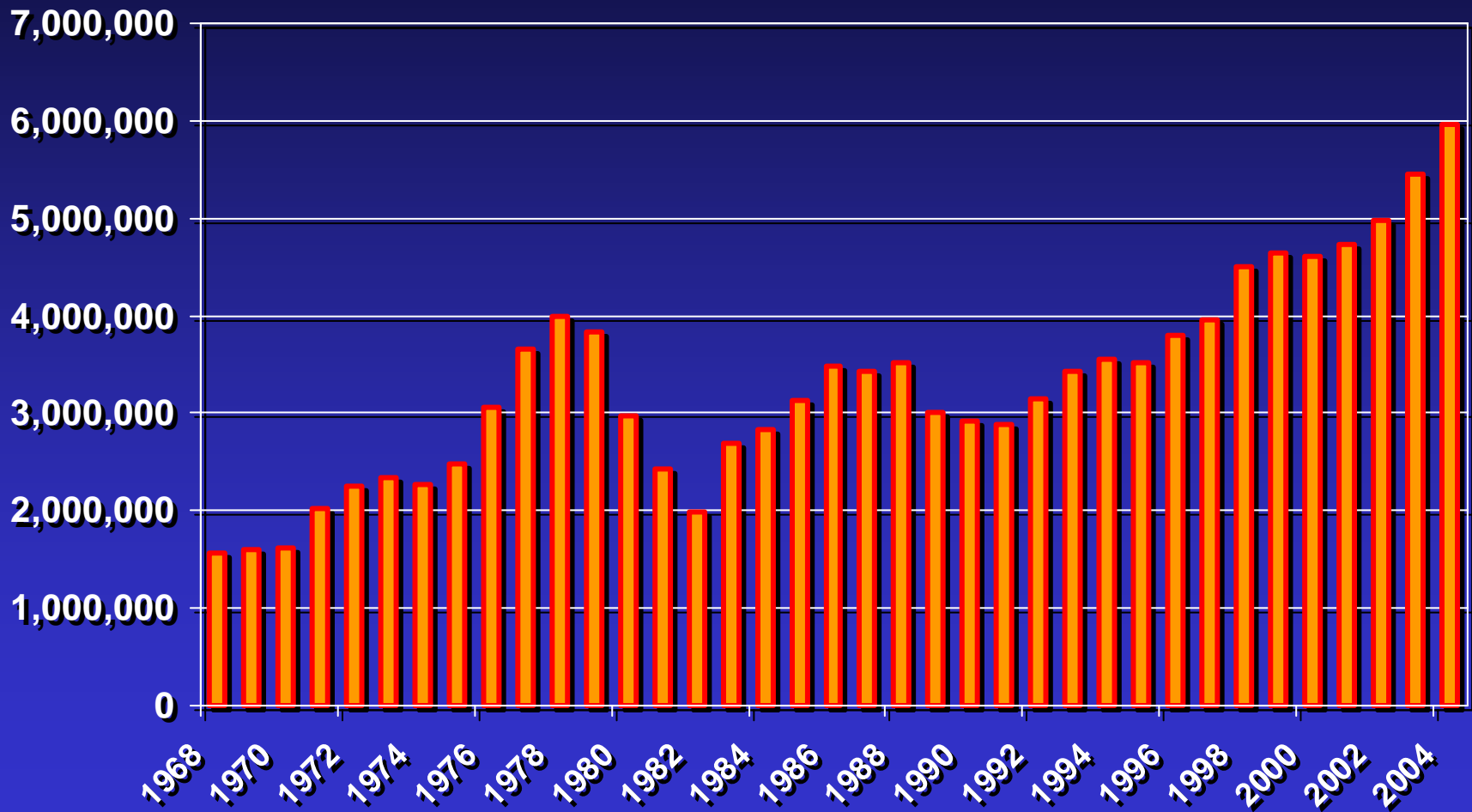
- Many service providers
 - 1.25 million REALTOR® members
 - 2.53 million real estate licensees
 - 98,000 active firms, 236,000 local offices
 - 1 million for-sale-by-owner sales
- Low barriers to entry and exit into the profession
 - 253,167 became new Realtor members, while 127,877 dropped Realtor membership in 2004
- Widely accessible information
 - Web browsing, newspaper, yellow pages, mailings

Past Cycles

- Recession in 1980s
 - Home sales declined by 50% from 1979 to 1983
 - REALTOR membership declined by 18% from 1981 to 1983
- Recession in 1990s
 - Home sales declined by 14% from 1988 to 1991
 - Membership declined by 12% from 1990 to 1995
- Recession in 2001 and 2002 – Different
 - 45-year low mortgage rates
 - Record home sales
 - Strong price increases
 - Record membership

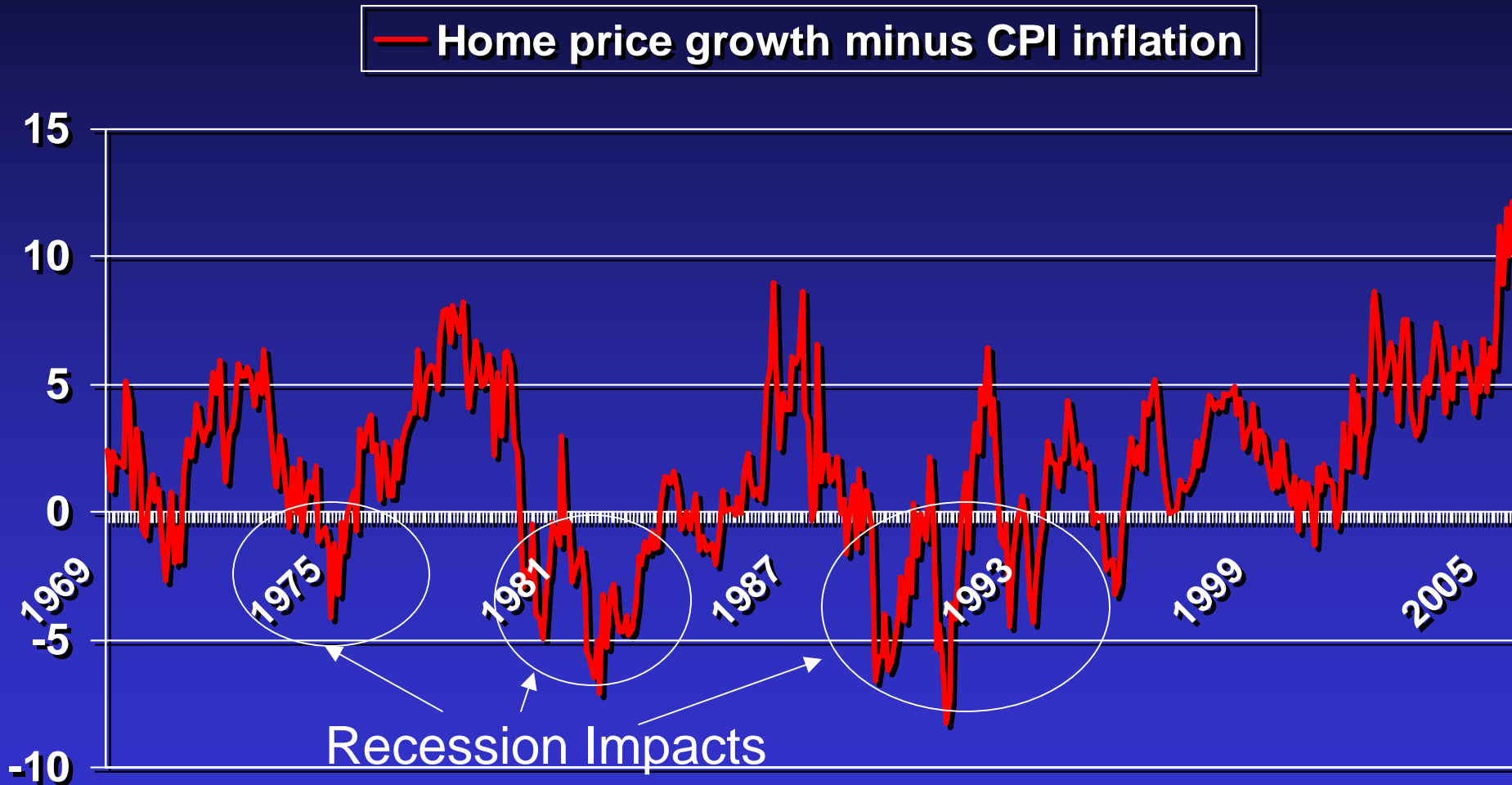
Existing-Home Sales

■ Total existing single-family home sales

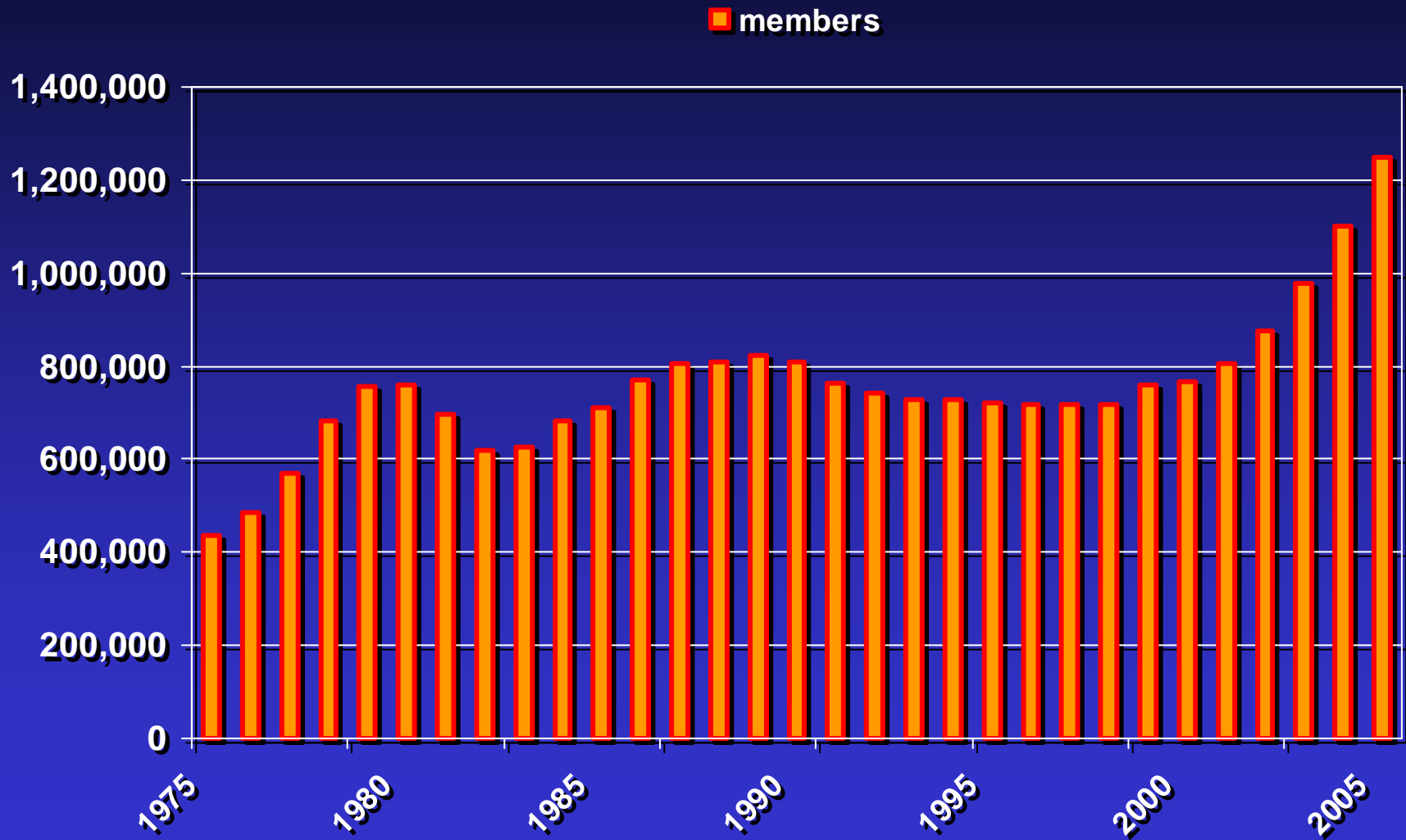


Source: NAR

Real Home Price Growth



NAR Membership



Source: NAR

Concentration Ratio

- Top 10 firms had 9.1% market share
 - Top 20 firms had 10.9%
 - Top 100 ... 17.0%
 - Top 500 ... 26.6%
-
- Competition for clients
 - Competition for agents

Source: Real Trends, 2004

Market Flexibility

Sales Force	1983	1990	1996	1999
1 to 5	51	55	51	60
6 -10	23	23	18	17
11 - 20	13	13	14	11
21 - 50	6	9	9	8
50 +	3	4	4	4

- 2004: 96% of office had 10 or fewer agents
- Constant economies of scale
 - Zumpano (2002)
 - Stigler Survivor Test

How can small firms survive?

- MLS access puts everyone on equal footing
- Agents are independent contractors
- Person-to-person and case-by-case service requiring the highest level trust
 - Legal advice
 - Estate planning advice
 - Tax advice

Perfectly Competitive Outcome?

- Median REALTOR Income
 - \$52,000 in 2002
 - \$49,300 in 2004, working 45 hours per week
 - Is \$52,000 or \$49,300 excessive or normal income?
- Falling commission rates with more members
 - 5.5% in 1998 to 5.1% in 2003 (REAL Trends)
 - Xyz% in 2005
 - Free moving truck
 - Closing cost assistance
 - Commission rebates

Desirable Performance Measures

- Economic mobility (proxied by home sales) – one of the most dynamic in the world
- Historical experience of seeking a government bailout – none – bad times were self-correcting through exits
- Taxpayer risk – none
- Social promotion of entrepreneurship and self-reliance – yes
- Social promotion of women entrepreneurs – yes
- Flexible work hours – yes
- Work stoppage through labor strike – none
- Data mining to price discriminate - none
- Subject to international regulatory jurisdiction - none

Multiple Listing Service

- Purpose of MLS
 - Facilitate home sales transaction
 - Available to all REALTOR members
 - \$500 million investment to show homes 24/7 on Realtor.com
 - Not set up to solicit clients at the expense of existing brokers/agents
- Public Utility? Consider to incentives to
 - Stadium vendors
 - Shopping mall vendors
 - Pharmaceutical retail

When In Doubt, Trust ...

- Market outcomes wrought from free entry and exit
- Market not subjected to “Profits in the Long Run”
 - Robin Marris and Dennis Mueller’s managerial theories of the firm
- Private ownership (of MLS)
- Democratic process (for consumer protection)